

Message Text

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E.O. 11652: GDS

TAGS: EMIN, TH

SUBJECT: THAI ZINC -- DOWN AND PERHAPS OUT

REF: BANGKOK A-237, SEPT. 15, 1975

SUMMARY: THAI ZINC EXEC (WOODROW SPONAUGLE) TOLD EMBOFF FEB. 3 THAT, AS RESULT INABILITY TO OBTAIN REQUISITE DECISIONS FROM CARETAKER GOVERNMENT, PARENT COMPANY (NEW JERSEY ZINC) IS SUSPENDING ITS EFFORTS TO SECURE FINANCING FOR \$90 MILLION ZINC SMELTER AT TAK. SPONAUGLE SAID NEW JERSEY ZINC OFFICIALS MIGHT TAKE ANOTHER LOOK AT PROSPECTS FOR PROJECT AFTER APRIL 4 ELECTIONS, SHOULD NEW GOVERNMENT PROVE RECEPTIVE TOWARD FOREIGN INVESTMENT. HE ADDED, HOWEVER, THAT IT IS ALWAYS DIFFICULT TO RENEW CORPORATE INTEREST IN PROJECTS WHICH HAVE TURNED SOUR, PARTICULARLY WHEN BETTER INVESTMENT OPPORTUNITIES MAY BE AVAILABLE ELSEWHERE. END SUMMARY.

1. FIRST SPECIFIC CONSEQUENCE OF FIRM'S DECISION CAME IN FEB 2 LETTER TO 85 THAI ZINC LTD. EMPLOYEES IN BANGKOK, TAK AND MAE SOT THAT THEY ARE TO BE FURLOUGHED AT END OF MONTH. PRESUMABLY THIS WILL BECOME PUBLIC KNOWLEDGE SOON.

2. IT HAD APPEARED UNTIL EARLY JANUARY THAT NEW JERSEY ZINC (NJZ) WOULD PROCEED WITH PLANS TO CONSTRUCT SMELTER AT TAK, PROBABLY IN 1976-77. MAIN OBSTACLE WAS FINANCING, WHICH WAS HAMPERED NOT

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ONLY BE UNFAVORABLE TURN IN THAI INVESTMENT CLIMATE IN 1975, BUT

ALSO BY NJZ'S RECENT DESIRE TO RE-NEGOTIATE MINING LEASE TO EXTEND EXPLOITATION PERIOD TO 15 YEARS FROM 10, WITH AN OPTION FOR 10 YEARS MORE. MOREOVER, THAI ZINC, ACTUAL HOLDER OF THE LEASE, IS ALREADY IN TECHNICAL VIOLATION OF EXISTING CONTRACT; WHILE APPARENTLY NOT A SERIOUS LEGAL OR POLITICAL MATTER, GOVERNMENT ACTION IS REQUIRED TO RENEW THE CONTRACT.

3. OFFICIALS IN THE MINERAL RESOURCES DEPARTMENT (MRD) HAVE TAKEN POSITION THAT THESE CONTRACTUAL MATTERS REQUIRE CABINET APPROVAL, WHILE ACCORDING SPONAUGLE, CARETAKER CABINET HAS PROVED UNWILLING, OR UNABLE, TO TAKE A POSITION.

4. ADDITIONAL MATTER ON WHICH COMPANY NEEDS DECISION IS REQUEST FOR AUTHORITY TO EXPORT TO U.S. 39,00 TONS OF ZINC ORE, MINED AND STOCKPILED AT MAE SOT, AND ON WHICH ROYALTY HAS BEEN PAID TO RTG. THIS WOULD BE FINAL SHIPMENT OF 200,000 TONS WHICH RTG, IN PRINCIPLE, AUTHORIZED NJZ TO EXPORT TO U.S. FOR EXPERIMENTAL PROCESSING PRIOR TO CONSTRUCTION OF SMELTER AT TAK. ACCORDING SPONAUGLE, FAVORABLE DECISIONS ON THIS AND CONTRACTURAL ISSUES WOULD BE "BANKABLE" FOR NJZ, AND WOULD MAKE IT POSSIBLE FOR NJZ TO CONTINUE TO PLAY, BUT MRD HAS NOT ISSUED EXPORT AUTHORITY.

5. ZINC PROJECT HAS BEEN BUBBLING ALONG UNDER AEGIS OF THAI ZINC LTD. AND SPONAUGLE (HE HAS BEEN IN BANGKOK SINCE 1967, ORIGINALLY WITH KIRKWOOD AND ASSOCIATES) SINCE 1972. NJZ PURCHASED ALL OF THAI ZINC'S STOCK IN AUGUST 1973, AND, ON BASIS ORE EXPORT AUTHORITY (PARA 4), COMMENCED TRUCKING AWAY THE TOP OF A 4,000-FOOT MOUNTAIN, WHICH IS AN EXTREMELY HIGH GRADE ZINC DEPOSIT AT MAE SOT, ON THE BURMA BORDER, EARLY IN 1974. ACCORDING SPONAUGLE, SUCCESS IN PROCESSING THIS ORE LED TO NJZ DECISION IN 1975 TO PROCEED WITH CONSTRUCTION OF SMELTER.

6. ALTHOUGH WE HAVE NOT SEEN A FIRM FINANCIAL PLAN FOR CONSTRUCTION OF THE SMELTER -- SPONAUGLE HAS TALKED VACUOUSLY ABOUT 45 PERCENT RTG OR PRIVATE THAI PARTICIPATION -- NJZ IN MID-1975 BEGAN DEVELOPING THE SMELTER SITE. (AT TAK IT WOULD BE NEAR MAJOR SOURCE OF POWER FROM BUMIPHOL DAM, RATHER THAN AT THE END OF AN EXTENDED POWER LINE, VULNERABLE TO WEATHER AND ROCK SLIDES, OVER THE MOUNTAINS TO THE MINE AT MAE SOT.) NONETHELESS, IN THIS CONFIDENTIAL

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CITY, A MOTHER LODE FOR RUMORS, THERE ARE CYNICS WHO FROM THE OUTSET CONTENDED THAT NJZ NEVER INTENDED TO CONSTRUCT A SMELTER, AND PROMISED TO DO SO ONLY AS A RUSE TO PERSUADE THE RTG TO APPROVE THE EXPORT OF THE 200,000 TONS OF ZINC ORE. IN THE ABSENCE OF EVIDENCE TO THAT EFFECT, WE HAVE CHOSEN TO ACCEPT THE PLANS OF NJZ, SUBSIDIARY OF GULF AND WESTER, AT FACE VALUE.

7. HOPEFULLY, ALL WILL COME RIGHT IN THE END. HOWEVER, THE PROS-

PECTS ARE NOT GOOD, AND IF NEW JERSEY ZINC DECIDES TO WITHDRAW
SINCE DIE, WE MAY WELL FIND OURSELVES UNDER FIRE FROM LEFTISTS WITHIN
AND OUTSIDE THE NEW GOVERNMENT, CHARGING BAD FAITH ON THE PART OF AN
AMERICAN FIRM. AT A MINIMUM, COLLAPSE OF THE SMELTER PROJECT
WOULD REPRESENT NOT ONLY A MAJOR OPPORTUNITY LOST TO THAILAND,
BUT COULD RESULT IN FURTHER POISONING OF THE ALREADY CLOUDY
BUSINESS CLIMATE HERE.
WHITEHOUSE

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